October 2011

Agribusiness Review

Australia and New Zealand

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)

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Report highlights

- September was dry across Australia, with coastal southern Queensland and northern New South Wales a distinct exception. The days were generally warm with cool nights. It was also drier-than-normal in New Zealand, with sunny yet cool conditions. The outlook for both countries is for a La Niña event to develop, bringing wet conditions to northern and eastern Australia and drier conditions in the south and in New Zealand.
- Global financial markets remain focussed on sovereign debt concerns in Europe; a softer overall economic outlook is weakening business and consumer sentiment. The Australian economy retains strong underpinnings despite an increase in unemployment. The slipping of New Zealand's credit rating has highlighted the softness in its economy.
- The Australian and New Zealand dollars fell through September as investors' flight to safety lifted the value of the US dollar, and concerns over the global economic outlook dented the strength of 'commodity currencies'. Volatility is expected to continue until there is more certainty over the strength of future growth and until investor confidence returns.
- Global grains prices eased during September, as most commodities respond to global economic woes. Wheat prices continue to be led by corn, and ongoing speculation over the size of the global corn crop is creating grain market volatility. Growing conditions in Australia have improved in many areas, and the outlook for the remainder of the season is positive, provided the emerging La Niña event is only weak-to-moderate.
- To a certain extent the outlook for global beef prices will reflect the economic outlook and its impact on consumer demand. Drought in the southern US continues to drive cattle to market, opening an opportunity for Australian and New Zealand exports once local supply tightens. Recent downwards movement of the Australian and New Zealand dollars is a positive for local exports.
- Global dairy prices have continued to weaken through September, with a rebalancing of supply and demand expected to bring further softening of prices over coming months. Recent downwards movement of the Australian and New Zealand dollars could mean the value of local exports remains largely unaffected by global price movements.
- Oil prices fell sharply in early October in response to the deteriorating economic outlook.

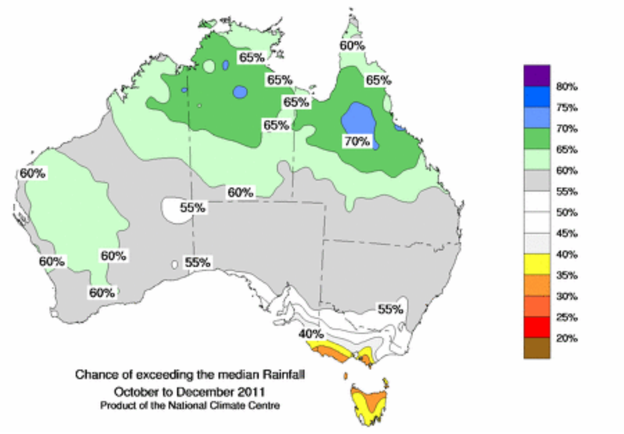
This report was prepared by Rabobank's Food & Agribusiness Research and Advisory division, a team of leading agribusiness analysts from Australia, New Zealand and around the world.

For further information:
research@rabobank.com

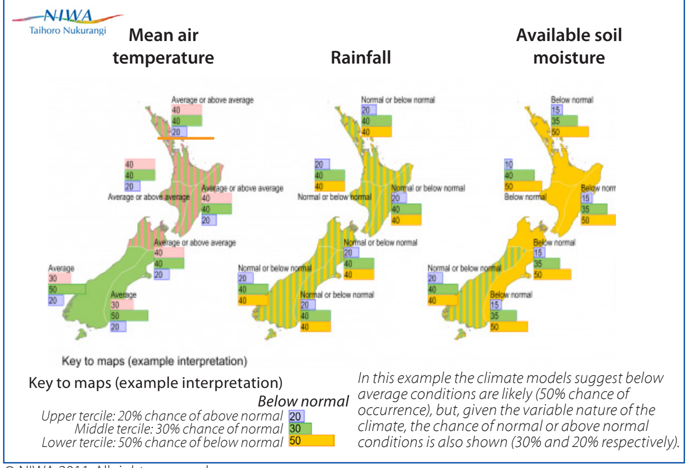
www.rabobank.com.au
www.rabobank.co.nz

Climate

Australian three month rainfall outlook October to December 2011



New Zealand three month outlook October to December 2011



Australia

- September was a drier and warmer-than-normal month across most of the country according to the Bureau of Meteorology (the Bureau), with the exception of northern New South Wales and southern Queensland – where above to very-much-above-average rainfall was received. September daytime temperatures were warmer-than-normal in all states – the sixth warmest September month on record across south eastern Australia. Minimum temperatures were cooler-than-normal in most states.
- A positive Indian Ocean Dipole (IOD) has developed, which increases the odds of drier-than-normal conditions over south-eastern Australia. The Bureau has also commented that the odds are now firm for a La Niña event to re-emerge in the final quarter of 2011 (see Southern Oscillation Index).
- The Bureau's latest rainfall outlook for October to December is consistent with a developing La Niña event and positive IOD. The outlook favours above-average rainfall across northern Australia for the remainder of spring and into summer. A drier-than-normal season is favoured across southern Victoria and Tasmania.
- Storages in the Murray-Darling Basin remain at 87% capacity.

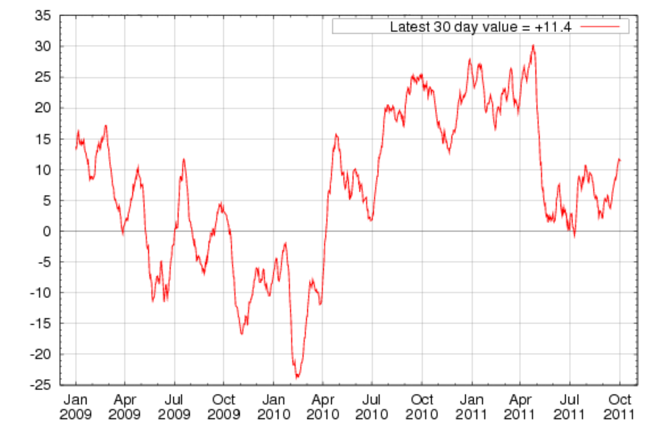
New Zealand

- New Zealand had a bright, yet cool start to spring according to NIWA. September was an extremely sunny month across the North Island and north and east of the South Island. Temperatures were cooler than normal across the North Island, as well as in Nelson, Marlborough, West Coast, Coastal Fiordland and south Canterbury.
- September was a drier-than-normal month in most regions, and the driest September on record for Whakatane. This was largely due to higher pressures than normal over the Tasman Sea, and lower pressures to the south and east of the country. Half the normal September rainfall was received in Bay of Plenty, Gisborne, on the West Coast, and in the Mackenzie country. However, average to above-average rainfall was received in coastal Southland, Central Otago and Auckland.
- Looking into Summer, NIWA's outlook for October to December is for average rainfall-at best, with below-average soil moisture and stream flows. This is consistent with the emergence of a La Niña event. Temperatures are expected to be average or warmer in the North Island and north of the South Island.

Southern Oscillation Index

- The Southern Oscillation Index (SOI) edged higher in September and has moved into the La Niña range of above + 8, following further cooling in the Pacific Ocean. According to the Bureau, the odds are now firm for a La Niña event to develop in the final quarter of 2011. The current 30 day moving average value of the SOI is +11.5.
- Historically, La Niña events have increased the likelihood of above-average rainfall and tropical cyclones in northern and eastern Australia
- If a La Niña event does develop, the Bureau expects that it would be weaker than the intense event of 2010/11 – with the positive IOD expected to provide some counter-balance.

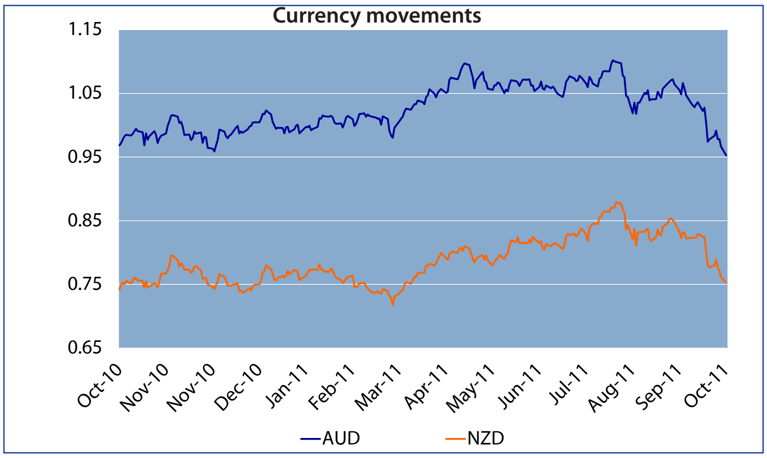
30 Day Moving Southern Oscillation Index 2 October 2011



Economy/currency

Currency USD	Current (04-Oct-11)	Last month	Last year
AUD	0.9511	1.0645	0.9724
NZD	0.7521	0.8481	0.7445

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Global financial markets tumbled further in September as the European sovereign debt crisis entered a more critical phase. Concerns over political action have heightened and the broader global economic impacts are becoming more apparent. Reform of one of Europe's financial bailout facilities - the European Financial Stability Facility (EFSF), may provide some relief to debt-stricken member countries if European politicians can reach consensus on the matter. However, the fall in business and consumer confidence, tighter fiscal conditions and banking sector health are weighing on economic activity and lowering the region's growth prospects. Greece remains Europe's problem child, with the risk of default still well and truly on the cards.
- Global growth prospects have deteriorated as the broader impacts of the European debt crisis and US economic weaknesses become increasingly visible. The International Monetary Fund (IMF) has cut its global GDP growth projection for 2011 from 4.4% in April to 4% in September, with major advanced countries taking the greatest growth projection cuts.

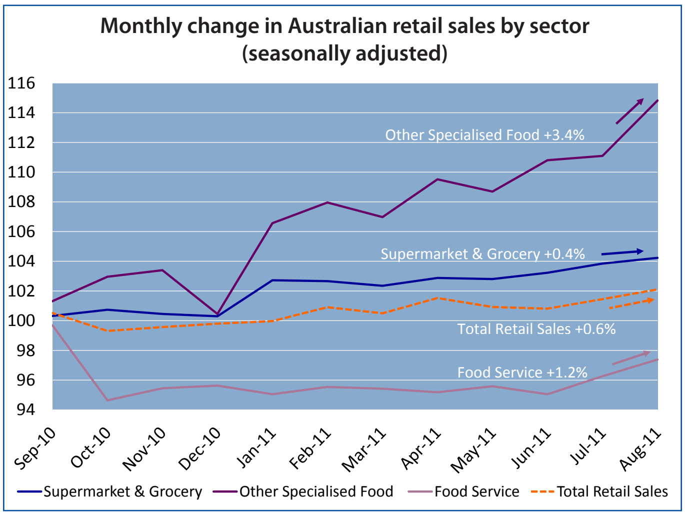
Australia

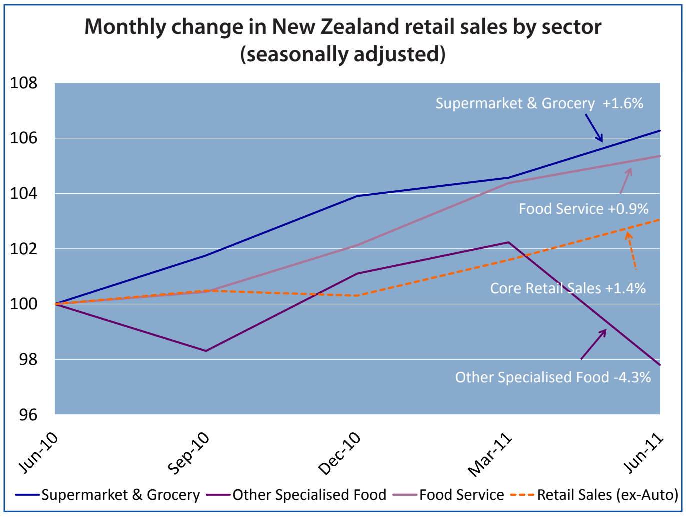
- The extent to which global economic headwinds filter through to the Australian economy is still largely uncertain, yet signs of weakness are emerging in some sectors. The unemployment rate shifted higher to 5.3% in August from 5.1% in July, while business confidence has softened and the manufacturing sector continues to contract. On the upside, household savings remain strong and consumer confidence had an uptick in September, yet this does little to offset the decline in consumer confidence over the few months prior to this.
- The Reserve Bank of Australia (RBA) kept the cash rate on hold at 4.75% in October for the 11th consecutive board meeting. Rabobank maintains the view that the RBA will keep rates on hold until the impact of slowing global growth can be better realised, although risks of a interest rate cut are rising.
- The Australian dollar sharply depreciated in September and currently sits around USD0.95, its lowest level in over 12 months. This is predominantly due to escalating international risks throughout September. Rabobank expects the Australian dollar to continue trading slightly below parity in the near term.

New Zealand

- A few negative developments in September suggest that the New Zealand recovery may be slower than previously anticipated, particularly in light of deteriorating global economic conditions. Q2 2011 real GDP growth increased by a modest 0.1%, falling short of market expectations, while relatively high external debt levels caused international rating agencies Standard and Poors (S&P) and Fitch to downgrade New Zealand's sovereign credit rating from AA+ to AA. The current account deficit was larger than anticipated for Q2, pushing the 1H 2011 current account deficit to 3.7% of GDP. On the upside, the Rugby World Cup and the rebuilding of Christchurch should help support economic activity.
- The Official Cash Rate remains at 2.5%, and the next movement in monetary policy will depend on the extent to which global financial conditions filter through to the domestic economy. Rabobank expects the Reserve Bank of New Zealand to remain on hold this year. The New Zealand dollar also weakened substantially in September as international economic risks escalated. The dollar currently sits at USD0.75, and is expected to trade around this level in the near term.

Food retail





Source: ABS Cat 8501 – % reference represents month-on-month change for most recent period

Australia

- Australian retail trade turnover for August 2011 has continued to show strength, up 0.6% on the prior month in seasonally adjusted trade estimates. This result consolidates the positive figures in July and retail trade turnover is now up 2.1% on the corresponding period in 2010 (ABS, 2011). These latest results are consistent with the gradual rise in retail sales over 2011.
- Seasonally adjusted Supermarket & Grocery retail trade for August increased by 0.4% on the prior month – trailing the growth in broader retail trade. The rapid growth in Other Specialised Food trade continued, up 3.4% on the prior month, which represents the largest increase of all retail categories in August. Supermarket & Grocery retail is now up 4.2%, while Other Specialised Food trade is up a remarkable 14.8%, on the corresponding period in 2010 respectively.
- Growth of trade in Food Service channels (Cafés, Restaurant & Take-away) continued in August, up 1.2% on the prior month in seasonally adjusted estimates. This represents the second largest period of monthly growth over the last year. The monthly growth in Café & Restaurant trade (1.6%) was more than double that of Take-away Food trade (0.7%) in August, demonstrating consumers' growing preference for the premium channel. However, the August trade estimates represent the largest monthly growth in Take-away Food trade since November 2010. Nonetheless, trade in Food Service channels remains below that of last year, down 2.6% on the corresponding period in 2010. Take-away Food trade is the main contributor here, down 2.9%, while Café & Restaurant trade is down 2.4% on this time last year respectively.
- Consumer confidence amongst Australian households retraced much of its losses over recent months, rebounding 8.1% in September on the prior month (WMI, 2011). Despite this improved result, the level of confidence is still subdued and sits some 10% below its 10-year average level.

New Zealand

- An updated reading on New Zealand retail trade covering the September 2011 quarter is not due for release by Statistics New Zealand until mid-November.
- Consumer confidence amongst New Zealand households appears to have stabilised in the September 2011 quarter at a level just below its 10-year average (WMM, 2011). It appears as though New Zealand households are gradually upgrading their assessment of their current economic prospects, which is consistent with data showing steady improvement in the labour market and housing market over the past 12 months.
- Food prices in New Zealand declined 1.3% in August 2011 on the prior month. Following 12 months of inflationary pressure, the August result is the largest monthly decline across all major food categories in almost two years (Statistics NZ, 2011). Average price levels still remain 6.6% higher than a year ago, albeit including the 2.2% rise associated with the October 2010 GST rate increase
- Fruit and vegetable prices softened 5.9% in August in keeping with seasonal trends, while declines in pork and poultry prices led the meat category 0.9% lower despite persistently high beef and lamb prices. Declines across cereal related products and fresh milk, yoghurt, cheese and eggs led the grocery category 0.3% lower on the prior month.

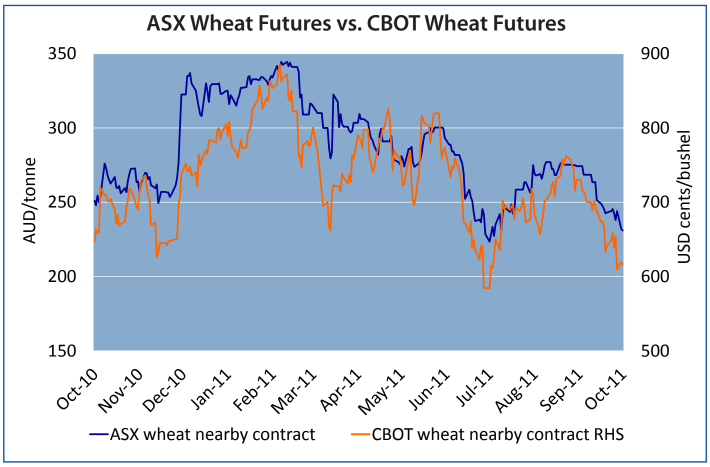
Grains and oilseeds

ASX wheat prices	Current (04-Oct-11)	Last month	Last year
AUD/tonne	231.00	274.30	251.00

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade (CBOT) wheat futures (nearby contract)	Current (04-Oct-11)	Last month	Last year
USD c/bushel	616.50	730.00	647.25

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Just like every other commodity in the world over the last three weeks, grains have been hit hard by the EU debt crisis and the fear of Greece defaulting. Wheat has moved significantly lower during this time, along with world equity and bond markets. If we enter a period of stability where it is perceived that there will be a satisfactory resolution to Greece's woes, it is likely that grain markets will once again begin trading on their own fundamentals which are relatively strong. Likewise, strength in outside markets is likely to move grains higher.
- Drought in the southern regions of the US is becoming a hot topic given that new crop wheat sowing will at this point occur during extremely dry conditions. US farmers are likely to sow wheat regardless of the conditions given the crop insurance values set by the US government are extremely high, giving the US farmer a great insurance "pay-out" should the crop fail.
- It is also worth noting that many areas of the world are particularly dry, the Black Sea and Europe in particular, whilst Australia's chances of receiving adequare rain over the ensuing months has increased considerably.
- Russian grain prices have begun to stabilise as interior wheat values have improved relative to grain values at port. In recent months Russian wheat has been the cheapest origin as the Russian's discount to clear old season stock as well as making a deliberate attempt to regain market share in countries such as Egypt.
- Australian grain prices generally remain discounted to CBOT wheat but are trading at higher values than Russian origin grain. Internationally high protein milling wheat continues to attract a strong premium over lower grades and is likely to remain so given lower quality crops in the Black Sea and US.

Australia

- A week is a long time in Australian agriculture. Crop conditions have made an incredible improvement along the east-coast with a significant rainfall of between 10-50mm occurring over most grain growing regions. This rain was extremely timely given that in many areas the majority of September was dry. In some of the worst affected areas yields have improved by as much as 50%. Western Australia is generally in excellent condition with some areas having the potential to be the best year in memory. In Victoria the Wimmera continues to perform well with above-average yields predicted. The Mallee has made an enormous improvement however it is unlikely to yield more than an average crop. It is likely that 25% will be above average yield, 25% below average with the balance being close to average yields. NSW, particularly in the southern regions, is likely to have above average yields and has benefitted from recent rains. This commentary has been written flying in a light plane between Wagga Wagga and Moree in NSW, and it is obvious that conditions have improved considerably.
- Further rains are predicted over the coming weeks and further rain appears likely. The probability of further rains during the October-December period is also likely, which will have a positive impact on crop yields but will become a risk to quality as harvest begins in mid-late October in northern NSW and Queensland.

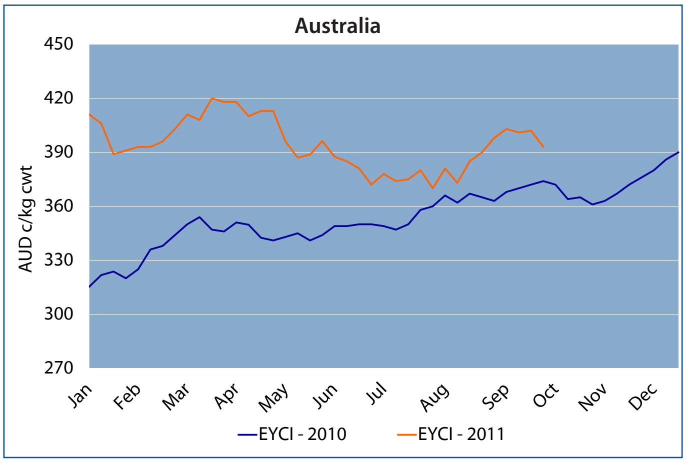
Beef

Australian beef prices			
All shown as AUD cents/kg cwt	Current (30-Sep-11)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	393	390	372

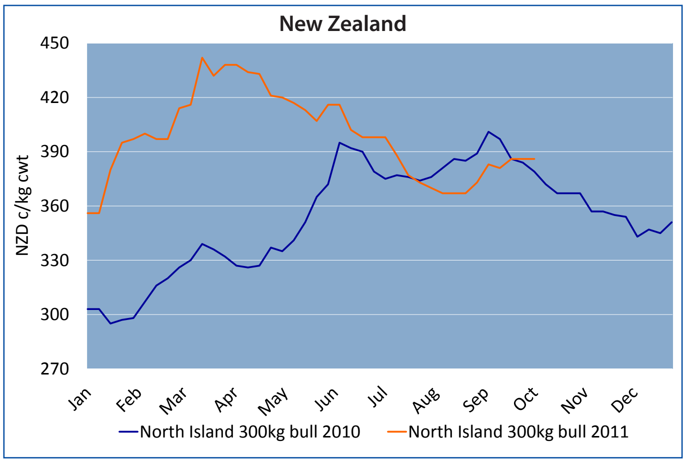
Source: NLRS/Rabobank

New Zealand beef prices			
All shown as NZD cents/kg cwt	Current (03-Oct-11)	Last month	Last year
North Island Bull 300kg	386	383	384
South Island Bull 300kg	388	370	365

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- Drought conditions in the southern US continue to drive large numbers of cattle onto the market, with cow slaughter in the US rising by 17% on 2010 levels since mid-year. In the short term the higher slaughter means that beef supplies in the US will be high, limiting price rises, after peaking at record price levels in May. However in 2012 supply is likely to decline, leading to upwards pressure on US beef prices and providing support for imports. Rabobank US analysts forecast that the supply of beef will remain restricted through to at least 2014.
- Paraguay announced an FMD outbreak last month and authorities responded by slaughtering 1,000 cattle in the affected area and suspending livestock exports. Paraguay's neighbours also called for suspension of livestock imports, hoping to contain the problem. USDA projected Paraguayan beef exports would total 310,000 tonnes in 2011, the world's eighth largest exporter. By comparison New Zealand is forecast to export 560,000 tonnes of beef and Australia will export 955,000 tonnes (shipped weight) to market this season. Brazil has stated that it can fill the void left by Paraguay, but given tight cattle supply in Brazil, this could create opportunities for Australia and New Zealand exports.
- However the outlook for beef prices remains unclear for upcoming months, given current global economic uncertainty. Concerns of high debt levels in the EU and the sluggish US economy have subdued consumer confidence and foodservice spending in a number of markets, including the US and Japan.

Australia

- Young cattle prices peaked at AUD4.03/kg cwt in September, the first time it has risen above the AUD4.00 mark since April. The lift in prices came off the back of September rainfall, which supported increased demand from re-stockers and some easing of the very high Australian dollar. Heavy steer prices have also increased, with both saleyard and over the hooks Japan Ox prices around 3% higher than the same time last year.

New Zealand

- Farmgate prices showed little change over the month, after a steady decline since peaking in April. During what is normally a period of increasing farmgate returns, pressure from the strong New Zealand dollar had a dampening effect (of at least 10%) on returns. While some relief for New Zealand producers will result from the currency weakening (due to the downgrade of New Zealand's sovereign rating), the US drought issues stay.
- New Zealand's beef exports in August were up 20% by volume year-on-year, however as this is one of the lowest production months for year, the net change equated to little more than 4,000 tonnes. US, Japan and Indonesian markets were all soft, while Korea saw a 50% lift in volume compared to August 2010, but at only moderate prices. Average returns dropped to NZD5300/tonne for the month, 3% down on July, matching similar returns to the same period last year.

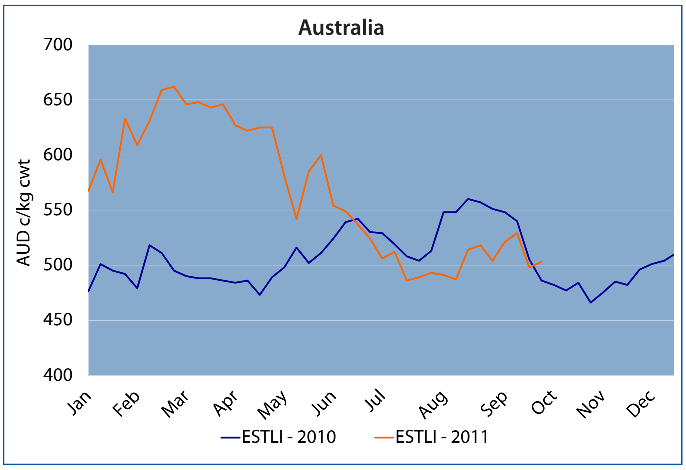
Sheepmeat

Australian lamb prices			
All shown as AUD cents/kg cwt	Current (04-Sep-11)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	503	518	486

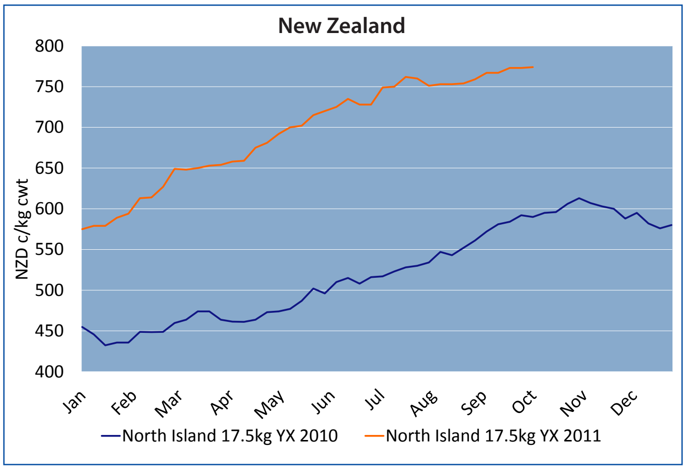
Source: NLRS/Rabobank

New Zealand lamb prices			
All shown as NZD cents/kg cwt	Current (05-Sep-11)	Last month	Last year
North Island 17.5kg YX	774	767	590
South Island 17.5kg YX	717	707	584

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Woolworths and Coles have announced a cut in retail lamb prices. This follows similar cuts for beef late last year. Heading into the spring Australia is approaching the peak supply period for lambs, which usually brings lower farmgate prices. Therefore there is some speculation that the price cuts will be temporary. However if supermarkets follow the pattern set with beef the cuts may last longer. Beef discounts introduced last year have been maintained, even in the face of record young cattle prices early in 2011.
- Lamb prices fell in late September, with the Eastern States Trade Lamb Indicator finishing the month at AUD4.86/kg cwt; still 3% above the same time last year. Prices should continue to decline in October as the seasonal supply of lambs increase.
- Lamb exports to the US for the year to September (as of 28th) have reached 25.6 kt, compared to 24.8 kt for the same period in 2010. The rise has taken place despite a surge in the value of the Australian dollar compared to US currency, reflecting the restrictions on local sheepmeat availability in the US market. The USDA estimates that sheepmeat imports will reach 80kt in 2010, around half of which should be supplied by Australia.

New Zealand

- A promising start to lambing for the season weatherwise bodes well for the industry to remain on track for an overall 5% lift in the kill figures in 2011/2012 season. Some of the drier east coast regions were offered relief with rain this week, following some concerns about a dry spring. While the challenge of the wet cold August in the south eased a little with the spring warmth. Although breeding ewe numbers are down, overall an improvement is forecast in lamb crop and slaughter numbers are expected to reach a little over 20 million head.
- Farmgate prices continued to increase lifting another 20c/kg through September and into the start of October, with South Island 17.5kg YX finishing at NZD7.17/kg cwt; 30% higher above the same time last year. Spring processing started well, with 700,000 winter lambs processed in September, up around 40,000 head up on September 2010.
- Year-on-year exports in August were down 5% in volume but revenue compensated lifting returns 20% for the same period last year. Average export per kg returns softened to NZD8.45/kg for bone-in cuts, a fall of 4% on July prices, while boneless product averaged NZD12.60/kg, no change. UK markets have seen roasting cuts discounted over the summer months by around 5%, while chops and other more seasonal cuts have lifted. UK production for the year to August is up 5%, to 8 million lambs, however overall supply remains tight in this market. Looking forward the supply position is not expected to change but some consumer spending continues to be threatened by the debt issues in the EU.

Dairy

World dairy prices	USD/tonne			AUD/tonne			NZD/tonne		
	29-Sep-11	Last month	Last year	29-Sep-11	Last month	Last year	29-Sep-11	Last month	Last year
Butter	4,100	4,400	4,200	4,191	4,130	4,305	5,293	5,189	5,611
SMP	3,388	3,600	3,200	3,463	3,379	3,280	4,374	4,246	4,275
WMP	3,450	3,700	3,475	3,526	3,473	3,562	4,454	4,364	4,643
Cheddar	4,288	4,450	3,975	4,383	4,177	4,074	5,536	5,248	5,311

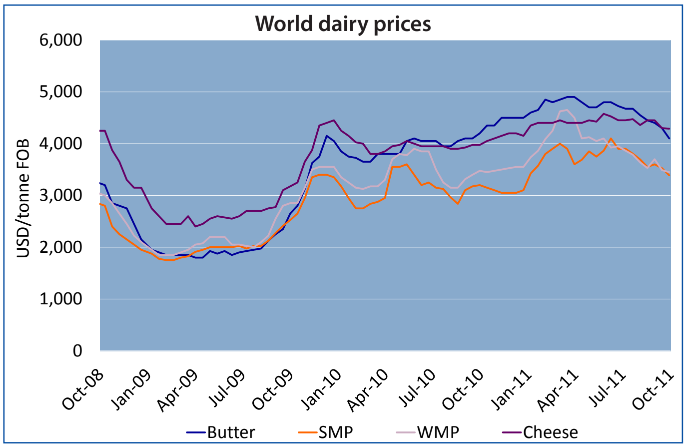
Source: USDA/Rabobank

Global

- September dairy commodity prices slowly ceded ground. Price falls in USD terms were evident across the dairy complex with falls in the range of 3-7%.
- The deterioration in demand conditions in the US and EU and ongoing uncertainty around the direction of both financial and commodity markets is expected to continue overshadowing solid growth in other parts of the world through the coming month.
- Global import demand growth is likely to be finely balanced between those stagnating as consumers struggle with rising prices and/or lacklustre economies and those looking to re-enter the market after a period of absence, as product prices have become more affordable.
- While milk supply growth rates have been easing in key regions over recent months, improved weather in the US after the hot July and a good autumn in the EU is keeping milk flows up higher than competing exporters would like to see.
- The Southern Hemisphere production season is about to hit its straps with milk flows likely to reach seasonal peaks through the next two months. Barring any climatic disruptions volumes are expected to be higher in both Australia and New Zealand and export volumes will reflect this lift.
- Through October and into November, market pricing will be heavily influenced by the size of the demand driven surpluses generated by the EU and US, the strength of the Southern Hemisphere spring peak and buying activity from key importers, especially China and Russia. These factors are likely to combine to bring modest downward pressure on prices through this period.

Australia

- The southern export sector emerges from a winter which delivered average rainfall to most dairy regions thus ensuring good soil moisture profiles leading into spring. In addition, irrigation allocations are now close to 100% which will ensure good availability for the 2011/12 season.
- While farmers are conscious of rising input costs, falling commodity prices, the strong local dollar and economic uncertainty, optimism remains high given solid opening farmgate prices and good seasonal conditions.
- Australian exporters had some welcome relief during September with the AUD falling back below parity as investors fled for the safety of the USD. This would help shield the recent falls in commodity prices.



Source: USDA/Rabobank

Production growth in key exporting regions	Latest month	Last three months
EU 27	2.4% (July)	1.5%
US	2.1% (Aug)	1.2%
Argentina	7.1% (July)	11.3%
Australia	0.1% (Aug)	-0.1%
NZ	10% for 4 months to September 2011	

*Rabobank estimate

New Zealand

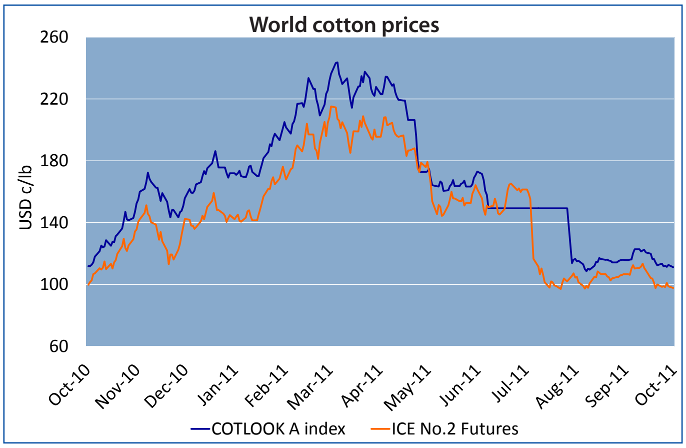
- Dairy commodity prices in local currency terms actually gained 3% on average in New Zealand over the past month as the NZD eased by around 8% against the USD. Prices are now broadly on par with the same period last year across all products but remain noticeably weaker for butter and WMP.
- Total payouts for 2010/11 have been finalised over recent weeks. These reached record levels as Tatua led the cooperatives at NZD 8.68/kgMS, followed by Fonterra at NZD8.25/kgMS and Westland at NZD7.80/kgMS - all before retentions.

Cotton

World cotton prices			
All shown as USD cents/lb	Current (04-Oct-11)	Last month	Last year
Cotlook A Index	111.15	116.10	114
ICE No.2 NY Futures (nearby contract)	97.75	106.24	99.97

Source: Bloomberg/ICE/Rabobank

- September was a volatile month for cotton futures, with the front month contract of the ICE #2, easing 7% after reaching a high of USD 113c/lb mid month. Broader macro concerns and managed money selloffs were the main drivers of the downturn. Futures for December delivery have since found support at around USD 100c/lb.
- However improvements in US cotton exports, coupled with ongoing concerns for the new crop, have supported cotton prices, preventing further losses through the macro turmoil. US cotton export sales have resurged, and the USDA announced the highest volume of weekly sales since March 2010, of 222,600 bales. Around 200,000 bales are destined for China, with the Government Reserve taking advantage of lower prices.
- The late arrival of the monsoon has delayed Indian cotton picking which is expected to commence in November. Meanwhile, 52% of the US crop is rated good to excellent, versus 66% last year.



Source: Bloomberg/ICE/Rabobank

- Planting is underway in Australia and conditions are near optimal, with preplanning showers received in the nick of time for northern New South Wales growers and adequate irrigation allocations.

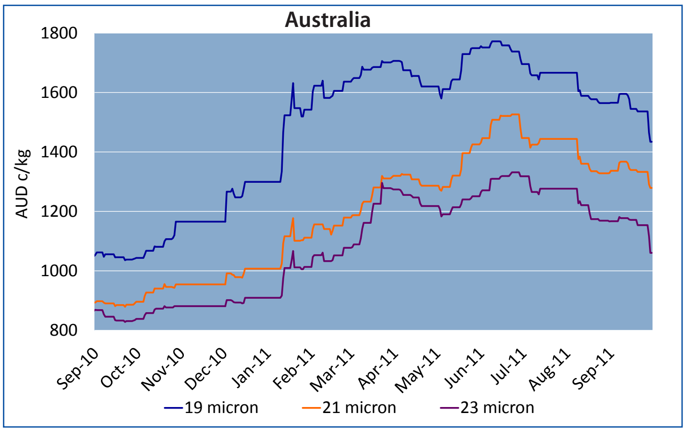
Wool

Australian wool prices (eastern)			
All shown as AUD c/kg clean	Current (04-Oct-11)	Last month	Last year
Fine (19 micron)	1435	1566	1044
Medium (21 micron)	1279	1337	896
Broad/coarse (23 micron)	1061	1167	839

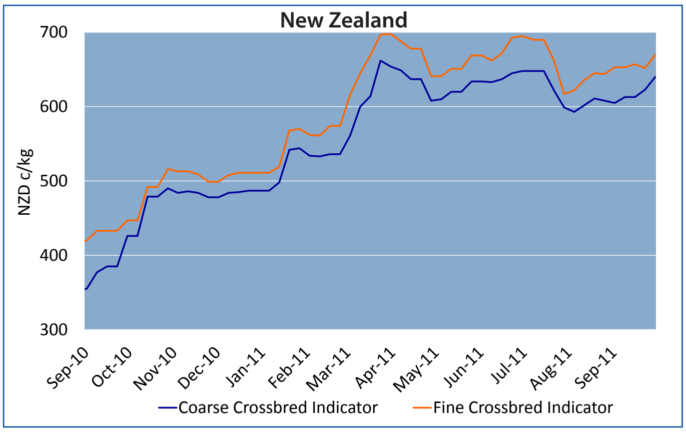
Source: Rabobank/Bloomberg/AWEX (average north and south prices)

New Zealand wool prices			
All shown as NZD c/kg	Current (30-Sep-11)	Last month	Last year
Fine crossbred	670	653	447
Coarse crossbred	640	605	426

Source: Rabobank



Source: Rabobank, Bloomberg/AWEX (average north and south prices)



Source: NZWSI/Rabobank

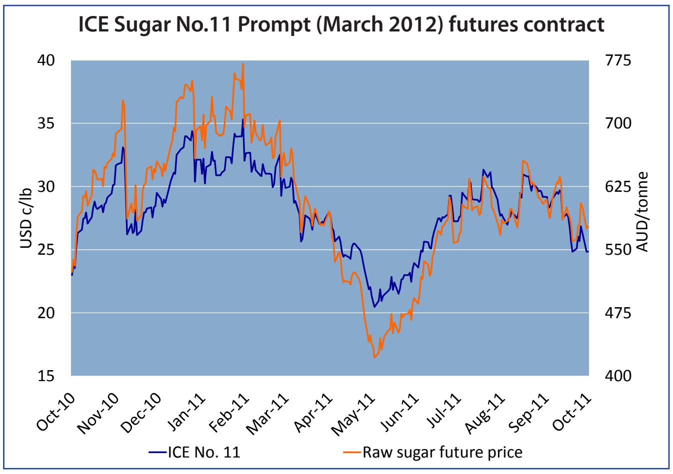
- Australian wool prices fell sharply in September; the Eastern Market Indicator fell almost 6% to finish the month at AUD1193 c/kg. Buyers remain cautious as economic conditions in some of the main wool consuming countries continue to deteriorate.
- Downside risks to demand in Europe and the United States are the predominant concern as these regions bear the brunt of economic problems, yet with the northern hemisphere winter approaching this may take a while to filter through to woollen product consumption trends.
- New Zealand merino wool prices have fallen in the past month yet crossbred wool prices have remained strong. The NZWSI Fine Crossbred Indicator increased by 4% and the Coarse Crossbred Indicator by 5% month-on-month.

Sugar

ICE Sugar No.11 Prompt (raw sugar futures price October 2011)			
	Current (04-Oct-11)	Last month	Last year
USD cents/lb	24.85	29.18	22.99
Converted to AUD/tonne	577.78	604.33	523.44

Source: Bloomberg/ICE/Rabobank

- September was a month of economic fragility and heightened volatility across financial and commodity markets alike. Coupled with the proximity of Northern Hemisphere supply availability, managed money positions in sugar markets were liquidated by the largest amount since February 2010. The March futures contract has rolled into the front month of the ICE #11, following the expiry of October. The front month lost 11% in September and is now trading below USD 25c/lb.
- New season sugar supply out of the Northern Hemisphere will arrive in coming months. European production is expected to set a record in 2011/12, owing to record beet yields, following favourable sowing and growing conditions. The much anticipated record Indian cane harvest is also expected to begin in mid October.
- With more than 20 million tonnes of cane now cut, the Australian sugar crush is into the final third. The sugar content of the 2011 crush is now outstripping that of 2010 in most regions, while cane volumes remain down on 2010. The exception here is the Burdekin region, where the sugar content to date is lower than last season, yet cane volumes exceed 2010 volumes.
- The crush is expected to draw to a close in most regions this October, however most of the remaining cane stands in the Burdekin region – which is expected to continue crushing into late December. Cane growing regions can expect a warmer and wetter-than-normal end to 2011, according to the Bureau. While this may help new cane plantings along, it could also constrain the length of the Burdekin crush, which raises the prospect of standover cane.



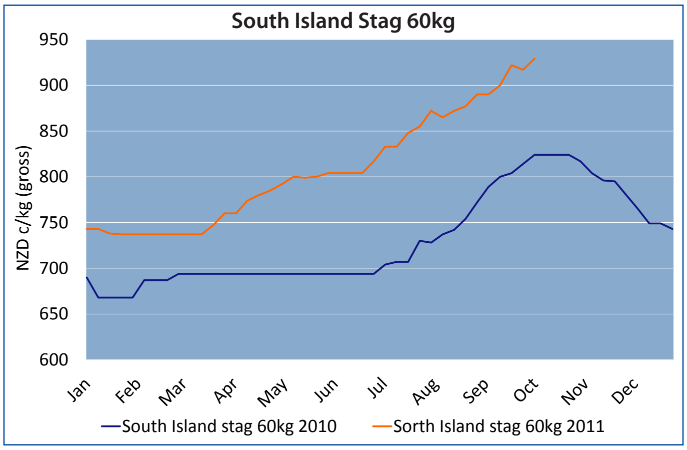
Source: Bloomberg/ICE/Rabobank

Venison

New Zealand venison prices			
All shown as NZD cents/kg gross	Current (05-Sep-11)	Last month	Last year
North Island Stag 60kg	895	861	815
South Island Stag 60kg	929	890	814

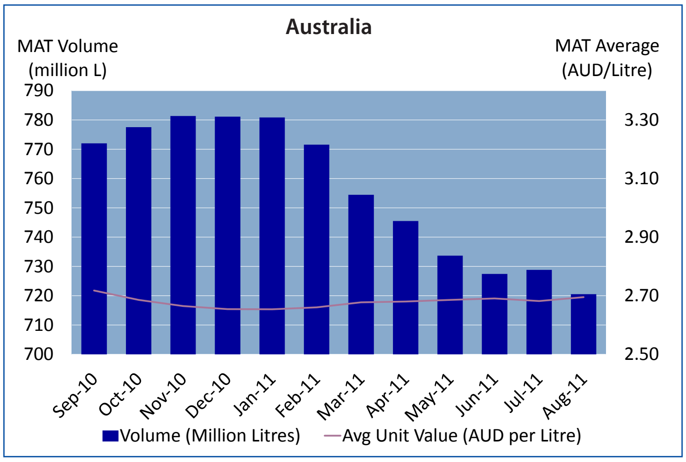
Source: NZX Agrifax/Rabobank

- Venison export volumes continue to lift as the European consumers move into their autumn, a season when demand typically improves. August export volumes were 23% up on July, at similar levels to last year, of 1,200 tonnes for the month. Even with the NZD strength export returns lifted by 17%, as chilled product shipments increased by a third in volume. The German economy had been experiencing positive growth in the first half of the year, but with the latest results showing slowing again, and the added uncertainty may put pressure consumer spending through to the end of the year. Farmgate returns are expected to hold or soften going forward and stay closer to mid to low $8/kg as export returns are expected to soften through to December. The only upside may come from New Zealand's weakening currency.
- Korea was the stand out buyer for velvet in August. Sales totalling 1500kg of frozen product fetched NZD50/kg, while 2 tonnes of dried product averaged NZD220/kg FOB.



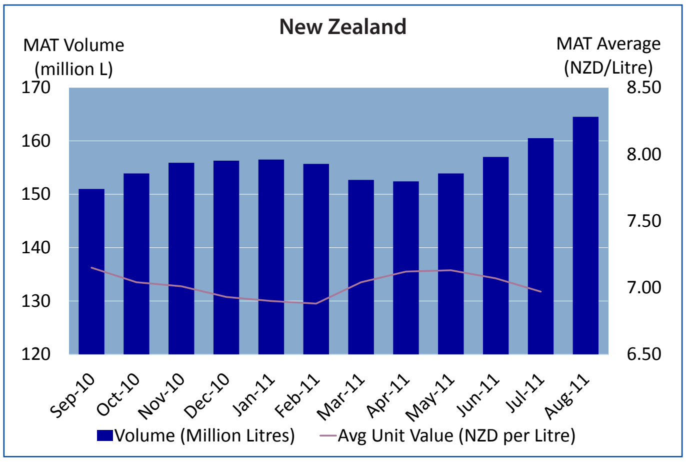
Source: NZX Agrifax/Rabobank

Wine



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month

Source: Australian Wine and Brandy Corporation/Rabobank



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month

Source: New Zealand Winegrowers based on Statistics New Zealand/Rabobank

Australia

- Australian wine export volumes in August 2011 fell 7.8% on the prior year to 720.5 million litres (ML), while the FOB value of exports fell 9.1% to AUD1,942 billion. The industry has experienced a steady decline in monthly shipment volumes over the course of this year as successive below average harvests reduce available supply and as many Australian wine companies push through price increases in core markets to contend with margin pressure from the high Australian dollar.
- Export volumes in the month of August 2011 were down 11.7% relative to the same month last year. In terms of monthly pricing, average unit values have increased for both bottled wine (+1.7% to AUD4.26 per litre) and bulk wine (+4.2% to AUD1.00 per litre) compared to a year earlier, a picture that certainly suggests exporters have been revising their pricing structures.
- Bulk export volumes in August were down on the prior corresponding period to the United States (-66%), Canada (-61%) Germany (-19%) and China (-57%). Higher pricing in this highly price elastic market has been the cause as quality stocks of high volume, low value commodity wine has become more restricted.
- Trends in bottled wine volumes and pricing were much less uniform across markets in August, highlighting the inherent variability in monthly shipment scheduling, but more fundamentally the isolated impacts of currency movements and a patchy global consumer economy. Bottled wine export volumes to the UK (-49%) and the Netherlands (-19%) were lower on higher pricing, while Canada and Ireland were both up 12% on lower pricing. In a concerning trend, bottled shipments to the US fell 3% despite significantly lower average prices, while on a more positive note volumes to China/Hong Kong rose 10% at higher average prices.

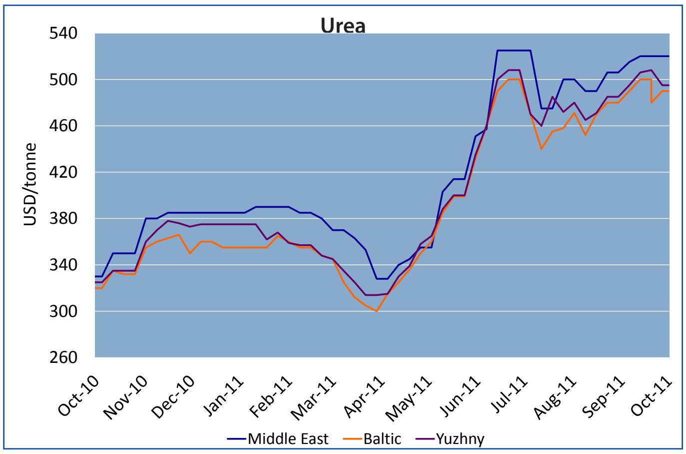
New Zealand

- New Zealand wine export volumes increased 13.2% to 164.5ML in the year to August 2011. Bottled wine shipment volumes grew 1.4% to 108.9ML, while bulk wine shipments increased 46.6% to 55.7ML over the period (NZ Winegrowers Assoc., 2011).
- Monthly exports reached a record 19.2ML in the month of August on the back of record bottled shipments (+7.4% versus August 2010) and record bulk shipments (+77.6%) as sales again begin to lift according to seasonal trends. The share of bulk wine shipments in the export mix remains elevated at around 40% as Marlborough-based wine companies continue to manage down inventories following the increased harvest in 2011. Bulk wine pricing has fallen accordingly as foreign importers and third party brand owners take advantage of higher supplies.
- In the year to July 2011, the annual value of exports grew 6.8% to NZD 1.1 billion. The annual average unit value declined to FOB NZD6.97 per litre in response to a higher proportion of bulk wine in the export mix. Bottled wine prices continue to fluctuate from month-to-month and remain mostly flat with the New Zealand dollar continuing to influence competitiveness in key foreign markets.
- Average bottled wine pricing in core markets has been mixed over the past 12 months mostly in line with currency movements and trends in bulk shipments. Pricing has stabilised in core markets such as the UK and US, while firmer pricing in Australia due to a more favourable currency pairing stands in contrast to weaker pricing in Canada.

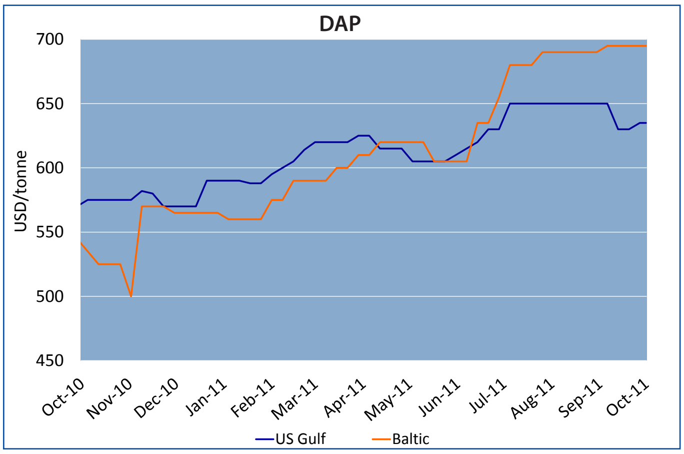
Fertiliser

Fertiliser prices			
All shown as USD/tonne	Current (03-Oct-11)	Last month	Last year
Urea (Middle East)	520	506	350
DAP (US Gulf)	635	650	570

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



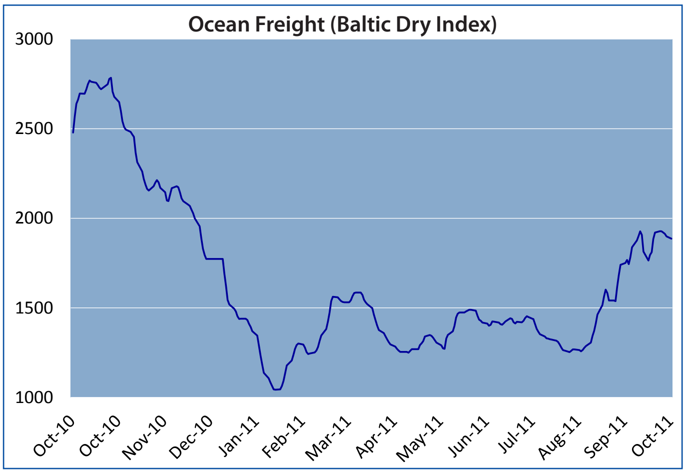
Source: Bloomberg/ICIS/Rabobank

- Global urea prices continued to increase over the last month, albeit at a slower pace compared previous month gains. In contrast global DAP prices were slightly softer through September, but still remain firm.
- Fundamentals supporting firm agri-commodity markets continue to underpin high fertiliser application rates with farmers looking to capitalise on these favourable market conditions. In addition, global inventories of most nutrients are tight, and production challenges linger in parts of the world.
- Through September the pace of upward price trends slowed as the market looked for clarification on how several events play out.
- Future price directions will be influenced by weather patterns in the Southern Hemisphere and how they impact fertiliser demand in Latin America and Oceania. Other factors influencing prices will be the availability of export supplies from China during the remaining low tariff window, and any knock-on effects of the global economic turmoil on agricultural markets.
- Rabobank expects fertiliser markets to remain firm in coming months. However, global fertiliser prices are likely to be now nearing peaks, driven by a gradual rebalancing of market fundamentals.

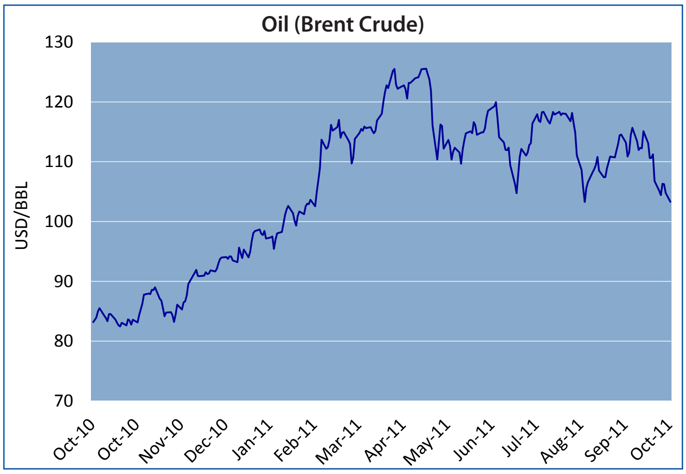
Other costs

Ocean freight index and oil prices			
	Current (04-Oct-11)	Last month	Last year
Baltic Dry Index* (ocean freight)	1886	1740	2478
Brent Crude Oil (USD/bbl)	103.30	115	81.57

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

*The Baltic Dry Index (BDI) is an index which averages the cost of shipping (for bulk-dry vessels) on 25 of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.

About the Rabobank Group

Rabobank Australia and Rabobank New Zealand are a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness.

Rabobank operates in 46 countries, servicing the needs of more than nine million clients worldwide through a network of more than 1,600 offices and branches. Rabobank Australia and Rabobank New Zealand are among their countries' leading rural lenders and are significant providers of business and corporate banking and financial services to the Australian and New Zealand food and agribusiness sector. Rabobank has 83 branches throughout Australia and New Zealand in all major agricultural regions.

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Rabobank New Zealand

For more information call 0800 722 622

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Auckland	(09) 375 3705
Christchurch	(03) 341 4219
Hamilton	(07) 834 7755
Wellington	(04) 819 2700

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Authors:

Justin Sherrard
General Manager of Food & Agribusiness
Research and Advisory
Justin.Sherrard@rabobank.com

Tracey Allen, Analyst
Commodities – Sugar, Cotton
Tracey.Allen@rabobank.com

Larissa Hyde, Executive Assistant
Larissa.Hyde@rabobank.com

Michael Harvey, Senior Analyst
Dairy, Farm Inputs
Michael.Harvey@rabobank.com

Airlie Hoskins, Research Analyst
Wool
Airlie.Hoskins@rabobank.com

Hayley Moynihan, Senior Analyst
Dairy
Hayley.Moynihan@rabobank.com

Rebecca Redmond, Analyst
Animal Proteins
Rebecca.Redmond@rabobank.com

Dean Smith, Senior Analyst
Grains & Oilseeds
Dean.Smith@rabobank.com

Marc Soccio, Senior Analyst
Wine, Retail, Horticulture
Marc.Soccio@rabobank.com

Wendy Voss, Senior Analyst
Animal Proteins
Wendy.Voss@rabobank.com

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